

ARTICLE II

PURCHASE OF MORTGAGE LOANS

Section 2.01. *Mortgage Loan Reservation Procedures.*

Mortgage Pool Fund. All proceeds available to the Board in connection with the purchase of Mortgage Loans hereunder will be reserved in a pool and committed to Participants for the Mortgagors on a loan-by-loan, first-come, first-served basis; provided, however, if the Board, in its sole judgment, determines that the provisions of this Section 2.01 need to be changed, it reserves the right at any time to modify such provisions and such change shall be effective five (5) days after written notification of change has been mailed by the Board to the Participant.

Mortgage Loan Reservation/Confirmation Report. Upon notification by the Board, Participants may begin reserving bond proceeds by submitting (1) the Mortgage Loan Reservation/Confirmation Report (BOH Form 99); (2) a copy of the executed FHA/ RD/VA/PMI Loan Application or the Participant's loan application; (3) the executed buy/sell agreement; (4) signed Recapture Notice to Mortgagor (see Exhibit D-1 attached hereto); (5) verification of Gross Annual Income; (6) RD conditional commitment, if applicable; and (7) Veteran's certificate of eligibility, if applicable; or submitting the equivalent information electronically over the Internet on "Lender On Line". DOCUMENTATION MAY BE MAILED OR FAXED, ALL RESERVATION FEES TO BE COLLECTED AT APPLICATION AND HELD BY PARTICIPANT, AND ALL CONFIRMATIONS OF RESERVATIONS WILL BE BY FAX or on "Lender On Line." The order of reservations will be determined by the date and time. Each reservation shall be individually submitted. The Board intends to confirm reservations within five business days.

Mortgage Loan Reservation (Part 1). The Participant must complete and execute Part I of the Mortgage Loan Reservation/Confirmation Report or use "Lender On Line," for each loan reservation by providing the following information:

- (a) Name and address of Participant;
- (b) Assigned 3-digit Participant Code;
- (c) Mortgage rate;
- (d) Loan Term;
- (e) Name of Mortgagor(s);

- (f) Proposed property address;
- (g) Gross Annual Income of Mortgagor(s) and verification of income;
- (h) Number of household members;
- (i) Loan type (FHA/VA/RD/PMI);
- (j) Reservation loan amount;
- (k) Amount of Reservation Fee, if any;
- (l) Whether property is new or existing;
- (m) Whether residence is in a Targeted Area; and
- (n) If the residence is a condominium project or planned unit development the name and number of units in the project.

Mortgage Loan Confirmation (Part II). Subject to availability of mortgage pool funds and upon review and approval of the required documentation and Reservation Fee, if any, the Board will reserve Bond proceeds for Participants for the acquisition of qualified Mortgage Loans. The Board's reservation of funds to acquire the Mortgage Loan under an individual Mortgage Loan Reservation/Confirmation Report shall begin on the date the Board approves the lender's request for a reservation of funds and shall expire 120 days thereafter for existing housing and 180 days for new construction. Such expiration date of the reservation will be set forth in Part II of the original Mortgage Loan Reservation/Confirmation Report and will be executed and forwarded by the Board to the Participant. The Board intends to process the Mortgage Loan reservations through "Lender ON Line" or fax a written confirmation to Participants within five business days of receipt. For each confirmed reservation, the Board will assign a Montana Board of Housing Reservation loan number. This number shall be permanently used by the Board and the Participant to identify the Mortgage Loan Reservation and the acquired Mortgage Loan. In the event the Mortgage Loan is not acquired by the Board within the applicable time period, the reservation will expire. In such a case the Participant may be required to pay a Cancellation Fee to the Board. Such funds previously reserved will be made available for use by a different Participant/Mortgagor. In the event the reservation expiration date shall occur on a weekend or holiday, such reservation expiration date shall be the next business day of the Montana Board of Housing.

Mortgage Loan Extension (Part III). Upon request, the Participant may be entitled to an extension of time to deliver a Mortgage Loan beyond the original date of reservation expiration. In order to secure an extension, the Participant

must provide the estimated delivery date of the Mortgage Loan. For each 30-day extension, the purchase price of the Mortgage Loan will be discounted at a percentage rate set forth in the Notice of Acceptance based on the outstanding principal amount of such loan purchased by the Board. Such request for extension may be submitted by E-mail or on the original Mortgage Loan Reservation/Confirmation Report that has been executed by the Participant and the Board for that particular Mortgagor. The request must be received by the Board on or before the date of the original reservation expiration date. Participants are advised to closely monitor their own Mortgage Loan Reservation/Confirmation Reports, including the expiration dates, and to forward applicable extension documentation when due. The Board will not notify Participants of reservation expirations except at the Board's sole discretion.

Modification of Mortgage Loan Reservations. Generally, Participants may not modify or substantially change Mortgage Loan reservations once a confirmed reservation is made. Should the information provided to the Board regarding a specific reservation be incomplete or inaccurate, the Participant must cancel the reservation and forfeit any Reservation Fee or pay an applicable Cancellation Fee. Such funds previously reserved for that particular Mortgagor will be made available for use by a different Participant and Mortgagor. Participants are at considerable risk regarding whether funds for a reservation will be available. Participants should exercise great care to be sure that information provided to the Board is complete and accurate.

Circumstances may arise in which the Board may consider and approve a modification or correction of the information provided through "Lender On Line" or in the Mortgage Loan Reservation/Confirmation Report. To request such change or correction, the Participant may inform the Board by telephone. If approved, the Participant will be required to immediately submit a letter, E-mail, or a copy of the Mortgage Loan Reservation Confirmation Report, with Part 3 completed, signed and dated. In the event a Fax, letter, E-mail, or the amended report is not executed by the Participant, the request for a modification or correction is void and the original reservation will be made available to a different Participant and Mortgagor.

Cancellation of Confirmed Mortgage Loan Reservations. The Participant shall immediately notify the Board if the Mortgage Loan cannot be completed and sold to the Board, so that mortgage funds may be made available for use by another eligible Mortgagor. No substitutions may be made by the Participant of either Mortgagors or properties. To cancel a Mortgage Loan reservation, the Participant shall notify the Board in writing. The cancellation request needs to list the Mortgagor's name, MBOH Reservation Loan Number, the Reservation Loan amount, the reservation fee, extension fee, if applicable, and, if applicable, the amount of the Cancellation Fee. Information should be provided about the reason

for the cancellation (such as a copy of the appraisal). The cancellation request will be confirmed by telephone to the Participant.

Reservation Fee. For each loan delivered to the Board under an individual Mortgage Loan Reservation/Confirmation Report, to the extent required by the Board at that time, the Participant will collect and hold for the Board, the Reservation Fee. In determining the amount of the Reservation Fee payable to the Board, the Participant shall include the aggregate amount of the FHA or PMI Mortgage Insurance Premium, RD Guarantee fee and VA funding fee in the event such premium or fee is included in the amount financed.

The Reservation Fee may be paid by the Mortgagor or seller. In the event the seller of the Residence agrees to pay a reservation fee in advance on behalf of the Mortgagor, such amount must be disclosed separately on the Settlement Statement as a seller expense.

Origination Fee. For each loan delivered to the Board under an individual Mortgage Loan Reservation/Confirmation Report, the Participant may collect from the Mortgagor an Origination Fee (as set forth in the Notice of Acceptance).

Loan Discount Fee. For each loan delivered to the Board under an individual Mortgage Loan Reservation/Confirmation Report, the Participant may collect a Loan Discount Fee, as set forth in the Notice of Acceptance. The lender may collect the Discount Fee from either the Mortgagor or the seller of the Residence.

Purchase Price of Mortgage Loans. The Board will purchase Mortgage Loans in accordance with the Mortgage Loan Submission and Purchase Schedule at a price, as set forth in the Notice of Acceptance. In the event the Mortgage Loan delivered to the Board is subject to a 30-day extension approved by the Board, such will be purchased at a price set forth in the Notice of Acceptance. The purchase price of such Mortgage Loans not delivered for purchase by the Board within 45 days following execution of the note by the Mortgagor will be reduced by an additional percentage, as set forth in the Notice of Acceptance, for each 30 days the loan is not delivered for purchase.

Servicing Fee. As compensation for servicing each loan purchased by the Board, the Participant shall receive a Servicing Fee (as set forth in the Notice of Acceptance); provided, however, that the Participant shall deduct the monthly Servicing Fee only when the entire amount of the Mortgagor's monthly payment of principal and interest has been paid. Such fee is calculated based on the monthly interest collected.

Section 2.02. **Purchase.** The Participant shall commence to make Mortgage Loans promptly and shall tender such Mortgage Loans for sale to the Board within 45

days after the signing of the note by the Mortgagor during the reservation period set forth in the Notice of Acceptance. The purchase price for each Mortgage Loan shall be the percentage of the outstanding principal amount of the Mortgage Loan designated in the applicable Notice of Acceptance together with the interest accrued thereon to the Mortgage Purchase Date.

Section 2.03. ***Closing.*** Mortgage Loans shall be delivered to the Board on such Mortgage Purchase Dates as from time to time shall be specified by the Board but no less frequently than once in every calendar month. Mortgage Loans shall be delivered at the office of the Board unless otherwise specified by the Board.

Section 2.04. ***Terms and Conditions.***

(a) A Mortgage Loan to be purchased by the Board must comply with the following conditions:

(i) It must comply with the Federal Eligibility Requirements set forth below in Section 2.05 and the Mortgagor and seller of the Residence must comply with all requirements specified in Exhibits C-1 and C-2 hereto.

(ii) It shall be made to a person or family of lower income as established by the Internal Revenue Code of 1986, as amended, and as established by the Board as set forth in Exhibit E hereto.

(iii) It shall be insured by the FHA to the extent of the full outstanding principal of the Mortgage Loan or by PMI to the extent required by the Board, guaranteed by RD to 90% of the outstanding principal or guaranteed by the VA at whatever percent is equal to the maximum guarantee allowable by law at the time of Mortgage Loan origination, with no consideration given to prior entitlements previously used by a veteran and not restored as a result of the exclusion provision. The liability on the guarantee is reduced or increased pro rata with any reduction or increase in the amount of the indebtedness, but will in no event exceed the original amount of the guarantee. On a RD guaranteed loan, the maximum loan amount will be the purchase price plus guarantee fee and the borrower must provide a minimum of \$1,500 of their earnings toward down payment and/or closing costs.

(iv) It shall provide for complete amortization at maturity through substantially equal monthly payments of principal and interest.

(v) It shall have a term not to exceed thirty (30) years or such other term as may be set forth in the applicable Notice of Acceptance.

(vi) It shall bear interest at the rate specified in the applicable Notice of Acceptance.

(b) All fees, charges and other amounts borne by the Mortgagor which are attributable to the Mortgage Loan shall be limited as follows:

(i) No points, Reservation Fees, Origination Fees or similar charges attributable to the Mortgage Loan may be borne by the seller of the Residence except an amount equal to no more than the amount or percentage set forth in the applicable Notice of Acceptance.

(ii) All costs incurred by the Mortgagor in acquiring the Residence and obtaining the Mortgage Loan shall be reasonable and shall not exceed the usual costs incurred by a person acquiring like property where financing is not being provided through the Board. Costs, which may not exceed usual and reasonable fees and charges include: application fees, credit report fees, survey fees, appraisal fees, title fees, title insurance, legal fees and other similar costs.

(iii) The Origination Fee, as set forth in the Notice of Acceptance.

No other fees, charges or other remuneration shall be directly or indirectly received by the Participant in making any Mortgage Loan. Late charges equal to a percentage of each monthly payment of principal and interest, as set forth in the Notice of Acceptance, may be imposed for payments more than 15 days delinquent.

(c) Each Mortgage Loan shall provide for monthly escrow payments in an amount sufficient to enable the Participant to pay when due all real property taxes and assessments, hazard and casualty insurance premiums (at least to the extent such insurance is required herein) and mortgage insurance premiums, if any. The Board shall have the right to pay any of said obligations when due and unpaid and the amount thereof shall be added to the debt secured by the lien of the Mortgage.

(d) Payments of principal and interest and escrow payments shall commence not later than the first day of the second month following the Mortgage closing date for each Mortgage Loan. Monthly payments will be due on the first day of each month.

(e) The Mortgage Loan note, the Mortgage and other Mortgage Loan origination documentation shall be executed on forms approved by the Board. A Participant may utilize its own word processing equipment to generate the forms approved by the Board, but only if (i) the words and general formatting of the

forms are the same as those approved by the Board and (ii) the Board has previously approved the Participant's generation of Board-approved forms; if any question is raised at any time as to the propriety of any form generated by a Participant as a result of the Participant not using the forms provided by the Board, the Board may, in its absolute discretion, if the Participant does not cure any defect or other problem with respect to the Participant's generated form (which shall be solely at the cost and expense of the Participant), require the Participant to repurchase the affected Mortgage Loan as provided in Section 2.07 hereof, and in any event the Participant hereby agrees to indemnify the Board and hold it harmless for any costs, expenses or damages it may incur with respect thereto.

(f) The Participant shall include in any reservation to make Mortgage Loans entered into with a builder or developer a certificate by such builder or developer that it will not increase the purchase price charged for any dwelling financed with the proceeds of a Mortgage Loan because such Mortgage Loan is available with respect to such dwelling and bears a below market interest rate. Such covenant shall be for the benefit of and enforceable by the Board.

Section 2.05. ***Federal Eligibility Requirements.*** In addition to the conditions set forth above, in order to be eligible for purchase by the Board from the proceeds of bonds, Mortgage Loans must strictly comply with the Federal Eligibility Requirements described in this Section (and, with respect to Qualified Rehabilitation Loans, also those of Section 2.05.1). If the documentation delivered at the time of closing does not indicate strict compliance, the Mortgage Loan will not be purchased.

If the Board subsequently discovers that a Mortgage Loan does not comply with the Federal Eligibility Requirements, it may exercise its right to have the originating Participant repurchase the loan. The Participant may then pursue its remedies by declaring an event of default to have occurred or increase the interest rate under the terms of the Uniform Rider to Trust Indenture.

Federal tax law requires the Board to cure defects in all Mortgage Loans. The Board has no power to waive or modify the Federal Eligibility Requirements.

(a) Residence Requirements.

(i) At the time the Mortgage Loan is executed, the Residence must reasonably be expected to become the principal Residence of the Mortgagor within a reasonable time after the financing is provided. This requirement may normally be met if the Mortgagor executes an affidavit of intent to use the Residence as a principal Residence within 60 days after the financing is provided. Whether a Residence is used as a principal Residence depends upon all the facts and circumstances of each case, including the good faith of the Mortgagor. The Mortgagor's Affidavit and

Certification attached as Exhibit C-1 hereto contains a representation to this effect as does the Uniform Rider to Trust Indenture attached as Exhibit B hereto. Unless the Participant is aware of other facts which would produce doubt as to the truth of these representations, they may be relied upon unless the Participant knows or has reason to know that the affidavits are false. The Participant will, of course, be deemed to have knowledge of all information contained in the loan file. Care should be taken to make sure there is no inconsistency with the affidavit before the loan is closed. A Residence which is primarily intended to be used in a trade or business shall not satisfy the Residence requirement. Any use of a Residence in a trade or business which qualifies under Section 280A of the Internal Revenue Code of 1986, as amended, (the "Code") for a deduction allowable for certain expenses incurred in connection with the business use of a home shall not disqualify a Residence from meeting the Residence requirement unless more than fifteen percent (15%) of the total area of the Residence is reasonably expected to be so used. Further, a Residence used as an investment property or a recreational home does not satisfy the Residence requirement. Although the Board may be able to issue advisory letters on this question in cases which seem clear enough at the time, there is still some risk of a subsequent interpretation by the U.S. Treasury which would necessitate a buyback. Examples are as follows:

Example 1. A condominium unit at a ski resort is recreational and would not normally be eligible. However, certain Mortgagors who have full-time, year-round jobs at the resort may be able to demonstrate use as a "principal residence."

Example 2. Lakefront property or property in a resort area may or may not be recreational. Extreme caution should be exercised by originating Mortgage Lenders in evaluating the other surrounding facts and circumstances.

Example 3. A combination barbershop and Residence is a Residence used in a trade or business and is eligible for a deduction under Section 280A of the Code. If the barbershop accounts for more than fifteen percent (15%) of the total building area, the property will not be eligible.

Example 4. A parcel containing two or three building lots which is capable of being subdivided and sold or rented separately from the portion used as a residence will normally be considered as investment property even if less than one acre is involved.

(ii) No part of the proceeds of the Mortgage Loan can be used to finance anything other than the Residence. Any land appurtenant to the

Residence which is not necessary to maintain the basic livability of the Residence may not be financed with the proceeds of the Mortgage Loan. Items of personal property such as appliances, furniture and the like which under Montana law are not fixtures may not be financed with the proceeds of the Mortgage Loan. (When multiple lots are involved, a plat or map must be submitted to show that all lots are needed for basic livability as defined in Section 143 of the U.S. tax code.)

(b) Three-Year Requirement.

(i) Except for Residences located in Targeted Areas listed on Exhibit G hereto, the Mortgagor and any other adult intending to live in the Residence must have had no present ownership interest in a principal Residence at any time during the three-year period prior to the date on which the Mortgage Loan is executed. For purposes of the preceding sentence, the Mortgagor's interest in the Residence with respect to which the financing is being provided shall not be taken into account. In the event that there is more than one Mortgagor with respect to a particular Residence, each of such Mortgagors must meet the three-year requirement. A person who is liable under a note secured by the Mortgage but who does not have a present ownership interest in a Residence subject to the Mortgage need not meet the three-year requirement. For example, where a parent of a home purchaser co-signs the note for a child but the parent takes no interest in the Residence, it is not necessary that the parent meet the three-year requirement since the parent is not a Mortgagor of the Residence.

Generally, ownership of factory-made housing, including a mobile home not permanently affixed to land owned by the Mortgagor, will not disqualify a Mortgagor. However, due to the difficulty of establishing the operative facts, Participants should not accept applications where a Mortgagor owned the land on which factory-made housing was located unless there is clearly established proof of the personal property character of the mobile home.

(ii) Examples of interests which constitute present ownership interests are the following:

(A) A fee simple interest in the form of a deed;

(B) A joint tenancy, a tenancy in common or tenancy by the entirety, such as co-ownership by spouses;

(C) The interest of a tenant-shareholder in a cooperative;

(D) A life estate under a parent's will or trust or otherwise;

(E) A land contract (i.e., a contract pursuant to which possession and the benefits and burdens of ownership are transferred although legal title is not transferred until some later time); and

(F) An interest held in trust for the Mortgagor (whether or not created by the Mortgagor) that would constitute a present ownership interest if held directly by the Mortgagor.

(iii) Examples of interests which do not constitute present ownership interests are the following:

(A) A remainder interest, such as an interest which is subject to a life estate held by someone else;

(B) A lease with or without an option to purchase;

(C) A mere expectance to inherit an interest in a principal Residence;

(D) The interest that a purchaser of a Residence acquires on the execution of a purchase contract; and

(E) An interest in other than a principal Residence during the previous three years.

(iv) The following are intended to broadly illustrate the foregoing rules:

Example 1. A separated or divorced person who was a co-owner of a house during the three-year period is not eligible.

Example 2. Sons or daughters who inherit a house are eligible so long as they did not occupy the house as a principal Residence after the death of their parent.

Example 3. A Mortgagor who occupied a principal Residence under a contract-for-deed will not qualify.

Example 4. A Mortgagor who leased a principal Residence with an *option* to buy is not disqualified. However, a lease for a term of more than 24 months may fail to satisfy the New Mortgage Requirement.

Example 5. A Mortgagor who owned a mobile home, took the wheels and axle off and installed it on a leased pad in a mobile home park is not disqualified.

(v) The Mortgagor's Affidavit and Certification attached hereto as Exhibit C-1 contains representations of compliance with the three-year requirement and income requirement and also requires the attachment of the Mortgagor's tax returns for the last three years (unless they were not required to be filed). The Mortgagor must provide copies of such tax returns as filed with the IRS or copies of such returns as certified by the IRS in accordance with the procedures set forth in Section 6103 of the Code. A copy of IRS Form 4506 will be provided upon request. The tax returns must show no deductions for interest or real estate taxes on a principal Residence. The Participant is entitled to rely on the affidavit and tax return unless there is reason to believe the affidavit is false.

The following are examples of the Three-Year Requirement:

Example 1. A Mortgagor supplies tax returns for calendar years 2001, 2000 and 1999 but has not yet filed a return for 2001. The returns show no deductions for real estate taxes or interest on home mortgages. The Mortgage Lender has no reason to believe the Mortgagor owned a principal Residence during 2001. The Three-Year Requirement is satisfied.

Example 2. The tax returns show deductions for interest and taxes on a dwelling that the Mortgagor swears in the affidavit was an investment property. The Mortgage Lender has no reason to believe the affidavit is false, i.e., the Mortgagor has shown that he had another principal Residence that he rented. The Three-Year Requirement is satisfied.

(c) *Purchase Price Requirement.* The Acquisition Cost of each Residence secured by a Mortgage Loan must not exceed the purchase price requirement for the county, or portion thereof, in which the Residence is located (see Exhibit F hereto). The purchase price requirements for new Residences are applicable to Residences which have not been previously occupied, and the purchase price requirement for previously occupied Residences is applicable to Residences which have been previously occupied. A person who temporarily rents or occupies a new house while financing for the purchase is being arranged will normally be considered to be purchasing a new Residence. The Board reserves the right to revise the purchase price requirement from time to time to reflect more recent statistical information or changes in federal "safe harbor" figures by notice to the Participants. The determination whether a particular Residence meets the purchase price requirement shall be made on the basis of the

purchase price requirement for new or existing Residences, in effect as of the date on which the commitment to provide the financing to the Mortgagor is made or, if earlier, the date of purchase of the Residence.

The following interpretive guidelines will be applied by the Board in determining "Acquisition Cost":

(i) all unpaid special improvement district assessments are included;

(ii) all amounts of "owner financing," such as second mortgages and deferred payments of any kind, are included;

(iii) the cost of land which has not been owned by the Mortgagor for at least two years prior to the date on which construction of the Residence begins;

(iv) all amounts paid to the seller by or on behalf of the Mortgagor are included;

(v) items of personal property, such as refrigerators, stoves, washers and dryers, are not included, but fixtures such as wall-to-wall carpeting, curtain rods and light fixtures are included; and

(vi) estimates for the costs of completing uncompleted areas of the Residence should be included, but the cost of finishing rooms or areas which are normally left unfinished, such as basement areas, are not necessarily included.

The purchase price requirement is normally satisfied by obtaining a Mortgagor's Affidavit and Certification and a Seller Affidavit and Certification attached as Exhibits C-1 and C-2 hereto. These affidavits may be relied upon to satisfy the purchase price requirement, provided the Participant has no reason to believe the affidavits are false. All loan documents should be reviewed to make sure there is no inconsistency prior to loan origination.

(d) *Income Requirement.* The maximum family income for all Mortgagors in Targeted and non-Targeted Areas, as the case may be, has been established by the Board as set forth in Exhibit E hereto.

Family income of the Mortgagor must be determined in a manner consistent with determinations of lower-income families under Section 8 of the United States Housing Act of 1937, as amended. For purposes of applying the federal income requirements, the "Gross Annual Income" of a Mortgagor is the Mortgagor's annualized gross family income. Annualized gross family income includes any and all income of the Mortgagor and any other person who is

expected to both live in the financed Residence and to be secondarily liable on the Mortgage Loan. Exhibit I, the "Income Determination Guide," is provided to aid Participants in determining income.

(e) *New Mortgage Requirement.* The Mortgage Loan must be made to Mortgagors who did not have a Mortgage (whether or not paid off) on the Residence securing the Mortgage Loan at any time prior to the execution of the Mortgage Loan. An existing Mortgage shall include deeds of trust, conditional sales contracts, pledges, agreements to hold title in escrow and any other form of owner financing, but shall not include the refinancing or replacement of (1) construction period loans or (2) bridge loans or temporary initial financing. Generally, temporary initial financing is any financing which had a term of 24 months or less.

The following are examples of this requirement:

Example 1. An applicant purchased land in 2000 and in 2002 obtains a loan to construct a house and upon completion of the house seven months later applies for a Mortgage Loan. The Mortgage Loan would meet the New Mortgage Requirement.

Example 2. An applicant rents a house for 18 months with an option to purchase it as soon as suitable financing is available. This arrangement does not violate the New Mortgage Requirement.

The Mortgagor's Affidavit and Certification and the Seller Affidavit and Certification attached as Exhibits C-1 and C-2 hereto contain representations as to the new mortgage requirement which may be relied upon unless there is reason to believe the affidavits are false.

(f) *Mortgage Loan Recapture.* The Participant shall provide to each Mortgagor at the time of the Mortgagor's application for a Mortgage Loan, the Recapture Notice to Mortgagor as set forth in Exhibit D-1 hereto. On or prior to the Mortgage Loan closing date, each Mortgagor shall execute and return to the Participant the Notice to Mortgagor of Maximum Recapture Tax and Method to Compute Recapture Tax on Sale of Home as set forth in Exhibit D-2 hereto. Note: With respect to Mortgage Loans closed on or after May 8, 2006, the Board has adopted a policy of reimbursing any Mortgagor for recapture taxes actually paid; see Exhibit D-3 hereto.

(g) *Assumptions.* No assumptions will be permitted without prior written Board approval and compliance with the federal tax law rules hereinafter described. Due to the administrative difficulties in assuring compliance, the Uniform Rider to Trust Indenture attached hereto as Exhibit B must be appended to and made a part of each Mortgage Loan. The Uniform Rider contains a broad

Due-on-Sale Requirement which effectively precludes all assumptions. The Mortgagors agree that the indebtedness of the Mortgage Loan may be accelerated and the interest rate thereon increased if, among other things, the Mortgagor sells, rents or otherwise fails to occupy the Residence as a principal Residence. Present Board Policy is to consent to assumptions when it is satisfied that the Residence requirement, the three-year requirement, the purchase price requirement, and the income requirement are met with respect to such assumption.

The following are examples of this requirement:

Example 1. The Due on Sale Requirement is breached if the original mortgagor is transferred to another town and rents the Residence to another person.

Example 2. The Due on Sale Requirement is breached if the original mortgagor defaults on the Mortgage and it is foreclosed.

Example 3. The Due on Sale Requirement is not breached if the original mortgagors are divorced and one of the parties continues to own the Residence.

Example 4. The Due on Sale Requirement is breached if the original mortgagor dies and leaves the Residence to his heirs.

Example 5. The original mortgagor buys a new house from builder during a time when the Purchase Price Requirement for new residences is \$139,500. He is subsequently transferred and wishes to sell the house subject to the mortgage to a purchaser who meets the Three-Year Requirement and the Residence Requirement. However, the selling price is higher than the applicable Purchase Price Requirement of \$105,453 for previously occupied houses. The Board is not allowed to consent to this assumption under federal tax law.

(h) *Compliance with Federal Requirements.* Notwithstanding compliance with the contractual requirements set forth above, the Board reserves the right to decline to purchase Mortgage Loans if in its sole determination such Mortgage Loans do not meet the requirements of Section 143 of the Code. The Participant agrees to provide the Board with information regarding Mortgage Loans when requested by the Board to comply with the requirements of Section 143 of the Code, and the regulations promulgated thereunder.

(i) *Due Diligence Requirements.* The Participant shall conduct a face-to-face interview with the Mortgagor to explain the federal requirements and perform the following investigations with respect to each Mortgage Loan originated for sale to the Board in accordance with this Guide:

(1) Obtain and submit true and correct copies of federal income tax returns filed with the Internal Revenue Service for the preceding three years, or, in lieu thereof, a certification that the Mortgagor and/or household member(s) were not required to file a federal income tax return during one or all of the preceding three years.

(2) Obtain the income certificates and verifications.

(3) Obtain affidavit from the seller of the Residence as to the Acquisition Cost of the Residence in the form to be provided by the Board.

(4) Examine the affidavit of Mortgagor's eligibility, the federal tax returns, residential appraisal report and affidavits pertaining to Acquisition Cost and income limitation and all other pertinent information obtained in connection with the origination of the Mortgage Loan in order to determine that sufficient documentary evidence exists to support the conclusion that the Federal Eligibility Requirements will be met.

(5) Take such other action as may be reasonably requested by the Board to investigate the truth and accuracy of the matters set forth in this Section.

Section 2.05.1. ***Qualified Rehabilitation Loans—Federal Eligibility Requirements.***

(a) In addition to Mortgage Loans meeting the requirements of Sections 2.04 and 2.05 above, as well as those of the relevant Invitation to Participate and Notice of Acceptance, the Board may, from time to time, agree to purchase Qualified Rehabilitation Loans if they also comply with this Section.

(b) A Qualified Rehabilitation Loan is a Mortgage Loan made for the purpose of rehabilitating a Residence in addition to refinancing any existing mortgage. For purposes of this subparagraph, rehabilitation includes renovation, restoration or reconstruction. In general, the rehabilitation must materially extend the useful life of the Residence, significantly upgrade its usefulness, or preserve it in a manner that significantly improves its condition or enhances its historic value. A rehabilitation may vary in degree from extensive reconstruction of a Resident's major structural components to the cure of an accumulation of major disrepairs. It may also include renovation, alteration or remodeling for the conversion of a structurally sound building to a design and condition required for residential use. Cosmetic or recreational improvements alone, however, do not qualify as a rehabilitation. A Qualified Rehabilitation Loan must meet all of the following requirements:

- (1) First Residency Requirement (defined hereinafter);
- (2) 20 Year Requirement (defined hereinafter);
- (3) 75% External Wall Requirement (defined hereinafter);
- (4) 25% Expenditure Requirement (defined hereinafter);

(5) The Federal Eligibility Requirements set forth in Section 2.05, other than the Three-Year Requirement and the New Mortgage Requirement;

(6) A commitment for a Qualified Rehabilitation Loan from the Participant must be issued to a Mortgagor or builder prior to the start of the rehabilitation. The Participant making the Mortgage Loan must process and monitor the rehabilitation of the structure, making at least two (2) inspections, depending on the scope of the project, and more where they may be required, to assure compliance with normal construction lending practices; and

(7) The other requirements for Mortgage Loans set forth in Sections 2.04 and 2.05 above, as well as those of the relevant Invitation to Purchase and Notice of Acceptance.

(c) With respect to the Purchase Price Requirement of the Federal Eligibility Requirements of Section 2.05(c) hereof, the Purchase Price Requirement of a Qualified Rehabilitation Loan is met if the Mortgagor's adjusted basis in the Residence (under federal tax laws) as of the completion of the rehabilitation, including the land on which the Residence is located and the rehabilitation expenditures incurred (whether such expenditures are financed with proceeds of the Qualified Rehabilitation Loan or not, and including all financing and other fees necessary to the rehabilitation so long as such expenditures and fees are expended during the rehabilitation of the Residence and are reasonably related to the rehabilitation of the Residence), do not exceed the purchase price requirements as published by the Board for existing Residences.

(d) The First Residency Requirement is met if the Mortgagor to whom the Qualified Rehabilitation Loan is made is the first resident in the building after the rehabilitation was completed. The loan can be made either in connection with the rehabilitation and the refinancing of an existing loan or in connection with the acquisition of a Residence that has been rehabilitated. This requirement will normally be met if the Mortgagor executes the Mortgagor's Affidavit and Certification and is able to provide satisfactory documentary evidence to demonstrate that the Mortgagor is or will be the first occupant since the building was rehabilitated.

(e) The 20-year Requirement is met if at least 20 years have passed between the date the building was first used and the date on which physical work on rehabilitation begins. Compliance with this requirement will normally be by reference to documentation provided by the Mortgagor and the Affidavit provided by the Appraiser (Exhibit M). The Board reserves the right to request further verification if it considers the issue in doubt.

(f) The 75% External Wall Requirement is met if 75% or more of the existing external walls (as measured by the total area of the existing external walls) are retained in place as external or internal walls in the rehabilitation process. Also, 50% or more of existing external walls are retained in place as external walls and 75% or more of the existing internal structural framework of such building is left in place. An external wall is a wall with one face exposed to the weather or earth. A common wall is not an external wall. An external wall is retained in place even though it is covered (e.g., with new siding) or reinforced. An external wall is retained in place notwithstanding that the existing doors and windows in an external wall are replaced or enlarged. An existing external wall is not retained in place, however, if the supporting elements of the wall are replaced. The Qualified Rehabilitation Loan Affidavit (see Exhibit L) of the Mortgagor and Participant must contain a sketch or photographs of the building showing the extent of the rehabilitation and the effect on the external walls.

(g) The 25% Expenditure Requirement is met if the expenditures for rehabilitation are 25% or more of the Mortgagor's adjusted basis in the Residence (including the land on which the Residence is located) under federal tax laws. The adjusted basis to the Mortgagor is the Mortgagor's adjusted basis as calculated pursuant to the Qualified Rehabilitation Loan Affidavit (see Exhibit L). The Mortgagor's adjusted basis shall be determined as of the date of completion of the rehabilitation or, if later, the date the Mortgagor acquires the Residence. Rehabilitation expenditures include those for renovation, restoration or reconstruction of the Residence. The amounts expended by the Mortgagor for rehabilitation include all amounts expended for rehabilitation regardless of whether the amounts expended were financed with the proceeds of the Qualified Rehabilitation Loan or from other sources and regardless of whether the expenditure is a capital expenditure so long as the expenditure is during the rehabilitation of the Residence and is reasonably related to the rehabilitation of the Residence. It is recommended that a contractor approved by the Participant be substantially involved with the rehabilitation of a property. The value of services performed by the Mortgagor or members of the Mortgagor's family will not be included in determining the rehabilitation expenditures for purposes of the 25% test. It is the Board's recommendation that the borrower obtain three bids outlining the scope and the cost of the rehabilitation expenditures. Where the Mortgagor is a licensed contractor, the Participant may waive the three-bid requirement. The relevant expenditures must be evidenced by copies of paid

invoices attached to a copy of the Rehabilitation Loan Affidavit (see Exhibit L) and retained in the Participant's file.

Subject to meeting the requirements set forth above, the following examples apply to Qualified Rehabilitation Loans:

Example 1: An attached garage for storage of car and other personal items can be included as an item of rehabilitation. Purely recreational items such as saunas, swimming pools, stables and the like do not qualify.

Example 2: A homeowner modernizes his residence by redoing the kitchen and bathrooms and adding an addition for a new room. The rehabilitation expenses, as well as the outstanding principal balance of any existing mortgage, can be financed with a new Qualified Rehabilitation Loan.

Example 3: A builder/developer buys an older home, replaces the electric, plumbing and heating system, and resells the house. The buyer has recently sold another house and wishes to use the rehabilitated house as a principal residence. The buyer is eligible to obtain a Qualified Rehabilitation Loan and does not have to meet the Three-Year Requirement providing the buyer meets the Income Requirement.

Example 4: A homeowner purchased a principal residence in 1973 for \$21,000 and has since had the home repainted several times, for a total cost of \$1,800 and no other repairs or maintenance has been done. The homeowner's adjusted basis before rehabilitation is \$21,000, and at least \$7,000 must be spent for rehabilitation in order to meet the 25% Expenditure Requirement. Repainting is considered maintenance and not normally considered a capital expenditure so it does not increase the homeowner's adjusted basis.

Example 5: The homeowner in Example 4 spends \$5,000 adding an additional bedroom and another \$3,000 on wallpaper, interior and exterior paint and wall-to-wall carpeting. All of these expenditures are Rehabilitation expenses even if some would be considered maintenance items if performed individually.

Section 2.06. ***Purchase Conditioned on Sale of Bonds.*** It is expressly understood and agreed that the obligations of the Board hereunder and under all related agreements entered into between the Board and the Participant in contemplation of the purchase and sale of Mortgage Loans, including, without limitation, the Invitations to Participate and Notices of Acceptance, are subject to the successful sale and delivery by

the Board of its mortgage revenue bonds and the receipt of payment therefore on terms satisfactory to the Board on or before the dates specified in the Notice of Acceptance.

Section 2.07. ***Remedies.***

(a) The Participant shall repurchase any Mortgage Loan purchased by the Board in accordance with this Guide for an amount equal to (i) the unpaid principal balance of, plus accrued interest on, the Mortgage Loan, (ii) the aggregate amount of any advances made by the Board for the account of the Mortgagor and interest thereon at the Mortgage Loan interest rate, and (iii) any attorney fees, legal expenses, court costs or other expenses which may have been incurred or expended by the Board in connection with said Mortgage Loan, upon notice by the Board if any of the following shall occur:

(i) if the hazard insurance policy limit of liability page listing the Board as first mortgagee on loss payable clause, the mortgagee title insurance policy or the original FHA mortgage insurance certificate or VA guaranty certificate or evidence of PMI insurance acceptable to the Board is not delivered within 90 days after purchase of the Mortgage Loan by the Board;

(ii) if the Board determines, at any time, with respect to such Mortgage Loan that any representation herein was untrue when made (including any information with respect to such Mortgage Loan listed in Exhibit A), any warranty or term hereunder has been breached, or a misstatement of a material fact by the Participant exists in any of the documents for such Mortgage Loan listed in Exhibit A;

(iii) if any mortgage insurance or guaranty with respect to such Mortgage Loan shall lapse due to negligence on the part of the Participant;

(iv) if the Board suffers, or is threatened with a material loss by reason of the misfeasance, nonfeasance or malfeasance of the Participant; and

(v) if the Board determines in its sole discretion at any time that the requirements of Section 143 of the Code, with respect to the Mortgage Loans, have not been complied with, whether or not the Participant is in any way responsible for such noncompliance.

Any such repurchase by the Participant shall take place on such date as the Board may specify in its notice to the Participant of the occurrence of one or more of the foregoing events, but not less than five days from the date of such notice. Upon repurchase, the Board shall reassign its interest in all appropriate Mortgage Loan

documents to the Participant and shall hold the Participant harmless from any action taken by the Board which has impaired the Mortgage lien.

(b) The Participant shall indemnify the Board and hold the Board harmless for any loss, damage and expenses that the Board may sustain as a result of the occurrence of any of the events mentioned in subparagraphs (i), (ii), (iii) or (iv) of Section 2.07(a).

(c) The Participant recognizes that the Board has established the interest rate on the Mortgage Loans, in reliance upon the limitations upon fees, charges and other amounts charged to the Mortgagor attributable to the Mortgage Loan as set forth in Section 2.04(b) hereof and as warranted by the Participant in paragraph (dd) of Article III hereof and hereby agrees to pay to the Board as liquidated damages for any breach of such warranty, the amount of any such fees, charges or other amounts which exceed the limitations agreed upon herein.

(d) It is agreed that the Participant shall be responsible for all damages, attorneys' fees, legal expenses, court costs or other expenses which may have been incurred or expended by the Board in connection with the failure of the Participant to perform its obligations in accordance with this Agreement.

(e) It is further agreed that if at any time any action or other legal proceeding should be instituted against the Board by reason of or in connection with any act or failure to act on the part of the Participant (whether such act or failure to act be in connection with the servicing of any of said mortgages or otherwise), the Participant shall indemnify and hold the Board harmless of and from any and all loss, damage and/or expense which it may sustain or incur by reason thereof including, without limitation, the amount of any judgment, plus any costs and interest thereon, which may be entered against the Board in any such action or proceeding, as well as any and all attorneys' fees and other disbursements paid or incurred in connection therewith.

Section 2.08. ***Transfer of Title to Mortgage.*** Transfer of the right, title and interest of the Participant in the Mortgage Loans to the Board, pursuant to purchase, shall be by delivery of the note evidencing each Mortgage Loan endorsed on the back thereof by the Participant to the order of the Board in the form specified in paragraph (d) of Article III hereof; and all Mortgages shall be assigned under a single or blanket assignment and which shall be recorded in the office of the County Clerk and Recorder of the county wherein each property is located; all in a manner, form and condition satisfactory to counsel to the Board and as more fully set forth in this Agreement. In addition the Participant shall properly assign to the Board any mortgagee title insurance policy and the rights to any Mortgage insurance relating to said Mortgage Loans.

Section 2.09. *Mortgage Loan Documents.*

(a) Not later than such date specified by the Board prior to each Mortgage Purchase Date, the Participant shall submit for examination by the Board, with respect to each Mortgage Loan to be sold to the Board on such Mortgage Purchase Date, the information required in Exhibit A hereto, any additional documents if required in the opinion of counsel to the Board to evidence the Participant's compliance with any representations, terms or conditions contained in this Guide or, at the option of the Board, arrange for inspection of originals of such documents by the Board. The Participant hereby warrants said copies to be true and accurate copies of their respective original documents. On each Mortgage Purchase Date, Exhibit A shall be completed, and all documents required thereby must be available for inspection by the Board, together with all assignments, endorsements, certifications and acknowledgments required by this Guide. Immediately following each Mortgage Purchase Date, all original documents for all Mortgage Loans sold to the Board on such Mortgage Purchase Date must be either set aside from the Participant's own documents in clearly marked files in a secure location or delivered to the Board, as directed by the Board prior to the Mortgage Purchase Date. The examination of said documents by the Board and its counsel shall not constitute a waiver of any warranty, representation or term hereof. The Participant hereby waives the defense of any statute of limitation that could otherwise be raised in defense to any repurchase obligation or damage to the Board. The Participant shall verify that the Federal Eligibility Requirements contained in Section 2.05 hereof are met.

(b) The Participant shall pay for the preparation and furnishing to the Board all instruments herein specified, and pay any and all expenses in connection with the transactions covered by this Guide, including, but not limited to, the cost of preparing and recording all the documents necessary to accomplish the transactions intended in this Guide, plus recording charges, and legal fees other than legal fees for services rendered by counsel to the Board. This subparagraph shall not prevent the Participant from charging the Mortgagor closing costs on the Mortgage Loans to the extent permitted by Section 2.04(b) hereof.

(c) The Participant shall cause all notices of the sale of the Mortgage Loans to the Board hereby to be given to the United States Department of Housing and Urban Development ("HUD"), FHA, PMI, RD or the VA, as and when necessary, including without limitation, preparation and submission at the Participants' expense, of HUD Form No. 92080, Mortgage Record Change, or such electronic reporting system as shall be acceptable to HUD and the Board.

(d) All funds collected by the Participant pursuant to the terms of the Mortgage Loan prior to the Mortgage Purchase Date with respect to such

Mortgage Loan and held by the Participant in escrow at that date, shall be transferred to a special custodial account and held in trust for the Board pursuant to Section 4.05 hereof.

Section 2.10. ***Hazard Insurance.***

(a) As to each Mortgage Loan purchased by the Board, the Participant shall notify the Board and the insurance company or companies issuing any policy or policies insuring each of the mortgaged premises against loss or damage by fire or other hazard (as set out in Section 4.06) by mail, that, effective on the Mortgage Purchase Date, such Mortgage Loan will be conveyed to the Board, and shall direct that the Board be designated as a loss payee on said policies as its interest may appear, effective on such Mortgage Purchase Date;

(b) The Participant, to the extent permitted by law, hereby assigns and sets over to the Board as of each Mortgage Purchase Date all its right, title and interest in and to such policies or contracts of insurance any benefits which it has heretofore received or which it may hereafter receive hereunder on all Mortgage Loans conveyed to the Board on such Mortgage Purchase Date. Upon the happening of any insurable event under any such policy of which the Participant has knowledge, the Participant shall with all reasonable speed proceed with vigorous efforts to collect the benefits; and

(c) The Board hereby designates and vests the Participant with all rights necessary to act for and in behalf of the Board to collect said benefits.

Section 2.11. ***Mortgage Loans as Additional Loans.*** The Participant represents and warrants that each Mortgage Loan shall be in addition to, and not in substitution for, residential Mortgage Loans it otherwise would have made in the State of Montana and that no reservation to make any such Mortgage Loan was entered into prior to the date of the Notice of Acceptance or in substitution for any reservation entered into prior to such date unless expressly approved in writing by the Board.